

**VILLAGE OF KALKASKA, MICHIGAN
GENERAL PURPOSE FINANCIAL REPORT
FOR THE YEAR ENDED FEBRUARY 29, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

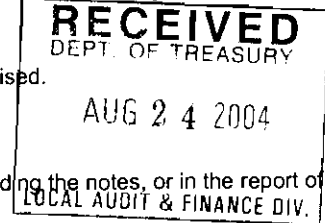
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Kalkaska	County Kalkaska
Audit Date 2/29/04	Opinion Date 7/13/04	Date Accountant Report Submitted to State: 8/23/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

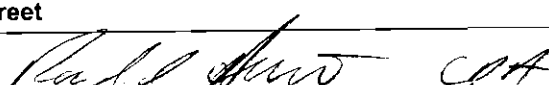
Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants			
Street Address 1107 E. 8th Street	City Traverse City	State MI	ZIP 49686
Accountant Signature 			Date 8/23/04

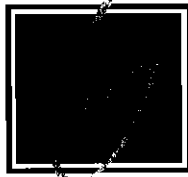
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FINANCIAL SECTION



HARRIS GROUP

Certified Public Accountants

Independent Auditor's Report

Members of the Village Council
Village of Kalkaska
Kalkaska, Michigan

We have audited the accompanying general purpose financial statements of the Village of Kalkaska, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Kalkaska's, management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Village of Kalkaska as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 13, 2004 on our consideration of Village of Kalkaska's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Kalkaska, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Harris Group
July 13, 2004

**VILLAGE OF KALKASKA
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS AND COMPONENT UNIT
FEBRUARY 29, 2004
WITH COMPARATIVE TOTALS FOR FEBRUARY 28, 2003**

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
ASSETS						
Cash	\$ 123,040	\$ 390,481	\$	\$ 23,934	\$ 1,221,472	\$ 138,645
Receivables:						
Taxes	557				102,864	
Accounts						
Due from:						
Other governmental units		372	5,788		8,865	
State	57,049	39,348				
Other funds	15,792	17,240	2,192		9,206	
Inventory of supplies	1,883				23,175	8,068
Prepaid expenses	4,267	464				
Restricted assets:					174,879	
Cash	44,358				87,934	
Land and land improvements					62,661	
Buildings					6,110,269	
Construction work in progress					4,620,323	
Improvements other than buildings					201,624	584,430
Machinery and equipment					(2,536,048)	(477,441)
Accumulated depreciation						
Amount to be provided for the retirement bonds and termination benefits						
TOTAL ASSETS	<u>\$ 246,946</u>	<u>\$ 447,905</u>	<u>\$ 7,980</u>	<u>\$ 23,934</u>	<u>\$ 10,087,224</u>	<u>\$ 253,702</u>

The accompanying notes are an integral part of these statements.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)		Discrete Component Unit	Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government		Downtown Development Authority	Reporting Entity	
			2004	2003		2004	2003
\$ 475,223	\$	\$	\$ 2,372,795	\$ 1,958,863	\$ 220,443	\$ 2,593,238	\$ 2,120,493
			557	4,374		557	4,433
			102,864	120,546		102,864	120,546
			6,160	5,239	30,303	36,463	33,275
			105,262	224,388		105,262	224,388
			35,224	35,224		35,224	35,224
			11,089	11,592		11,089	11,592
			35,974	34,179		35,974	34,179
			219,237	215,616		219,237	215,616
			129,355	129,355		129,355	129,355
	41,421		216,112	198,567		216,112	198,567
	153,451		6,110,269	3,977,169		6,110,269	3,977,169
			5,532,701	5,496,636		5,532,701	5,496,636
	912,378		1,208,833	1,198,612		1,208,833	1,198,612
	422,779		(3,013,489)	(2,873,120)		(3,013,489)	(2,873,120)
			237,237	216,088		237,237	216,088
41,257		195,980					
\$ 516,480	\$ 1,530,029	\$ 195,980	\$ 13,310,180	\$ 10,953,328	\$ 250,746	\$ 13,560,926	\$ 11,143,053

**VILLAGE OF KALKASKA
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS AND COMPONENT UNIT
FEBRUARY 29, 2004
WITH COMPARATIVE TOTALS FOR FEBRUARY 28, 2003**

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES & FUND EQUITY						
LIABILITIES:						
Accounts payable	\$ 16,787	\$ 449	\$	\$	\$ 364,890	\$ 269
Checks written in excess of deposits			14,024		49,622	1,172
Accrued liabilities	15,508	4,903			2,700	
Due to other funds	14,540	2,061				
Due to other governmental units	350					
Deferred revenue	557				286,350	
Notes payable					116,705	
Capital lease payable					97,000	
Bonds payable – short-term						
General obligation bonds payable					5,545,000	
Revenue bonds payable						
Amount provided by other funds						
TOTAL LIABILITIES	<u>47,742</u>	<u>7,413</u>	<u>14,024</u>		<u>6,462,267</u>	<u>1,441</u>
FUND EQUITY:					1,473,677	
Contributed capital						
Investment in gen'l fixed assets						
Retained earnings:						
Reserved for revenue bond					174,879	
Retirement and interest						
Designated for subsequent years expenditures					1,976,401	252,261
Unreserved						
Fund balances:						
Reserved for inventory	1,883		(6,044)			
Reserved for debt service		464				
Reserved for prepaid expenses	4,267					
Unreserved:						
Undesignated	<u>193,054</u>	<u>440,028</u>		<u>23,934</u>		
TOTAL FUND EQUITY	<u>199,204</u>	<u>440,492</u>	<u>(6,044)</u>	<u>23,934</u>	<u>3,624,957</u>	<u>252,261</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 246,946</u>	<u>\$ 447,905</u>	<u>\$ 7,980</u>	<u>\$ 23,934</u>	<u>\$ 10,087,224</u>	<u>\$ 253,702</u>

The accompanying notes are an integral part of these statements.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)		Discrete Component Unit	Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government		Downtown Development Authority	Reporting Entity	
			2004	2003		2004	2003
\$ 108	\$	\$	\$ 382,503	\$ 484,152	\$	\$ 382,503	\$ 484,152
			14,024			14,024	
			140,988	65,863		140,988	65,863
69,783			34,496	34,496	728	35,224	35,224
15,195			350	350		350	350
			557	95,898	11	568	95,910
		35,980	322,330	145,307		322,330	145,307
			116,705			116,705	
		15,000	112,000	110,000		112,000	110,000
		145,000	145,000	160,000		145,000	160,000
			5,545,000	3,662,000		5,545,000	3,662,000
			431,394	440,599		431,394	440,599
431,394							
516,480		195,980	7,245,347	5,198,665	739	7,246,086	5,199,405
			1,473,677	1,433,625		1,473,677	1,433,625
	1,530,029		1,530,029	1,502,263		1,530,029	1,502,263
			174,879	173,234		174,879	173,234
			2,228,662	2,020,597		2,228,662	2,020,597
			1,883	2,797		1,883	2,797
			(6,044)	4,340		(6,044)	4,340
			4,731	4,173		4,731	4,173
			657,016	613,634	250,007	907,023	802,619
	1,530,029		6,064,833	5,754,663	250,007	6,314,840	5,943,648
\$ 516,480	\$ 1,530,029	\$ 195,980	\$ 13,310,180	\$ 10,953,328	\$ 250,746	\$ 13,560,926	\$ 11,143,053

Governmental Fund Types			
General	Special Revenue	Debt Service	Capital Projects
\$ 573,082	\$	\$ 13,813	\$
200,761	198,008		
5,275			
10,066			
12,420			213
13,995	4,233		7,281
14,678	120		
<u>830,277</u>	<u>202,361</u>	<u>13,813</u>	<u>7,494</u>
40,838			
132,707			
377,847	2,739		
94,366	224,063		
12,441			
74,242			
5,108		15,000	
1,755		9,197	
<u>739,304</u>	<u>226,802</u>	<u>24,197</u>	
90,973	(24,441)	(10,384)	7,494
<u>(31,000)</u>			
59,973	(24,441)	(10,384)	7,494
139,231	464,933	4,340	16,440
\$ 199,204	\$ 440,492	\$ (6,044)	\$ 23,934

The accompanying notes are an integral part of these statements.

Totals (Memorandum Only) Primary Government		Discrete Component Unit	Totals (Memorandum Only) Reporting Entity	
2004	2003	Downtown Development Authority	2004	2003
\$ 586,895	\$ 568,419	\$ 84,513	\$ 671,408	\$ 645,167
398,769	399,252		398,769	399,252
5,275	7,300		5,275	7,300
10,066	13,262		10,066	13,262
12,420	14,405		12,420	14,405
18,441	24,017	1,821	20,262	25,586
22,079	15,941		22,079	15,941
1,053,945	1,042,596	86,334	1,140,279	1,120,913
40,838	52,210		40,838	52,210
132,707	126,071		132,707	126,071
380,586	411,232		380,586	411,232
318,429	259,320	25,312	343,741	278,361
12,441	15,812		12,441	15,812
74,242	124,956		74,242	124,956
20,108	19,888		20,108	19,888
10,952	10,596		10,952	10,596
990,303	1,020,085	25,312	1,015,615	1,039,126
63,642	22,511	61,022	124,664	81,787
(31,000)	(32,105)		(31,000)	(32,105)
32,642	(9,594)	61,022	93,664	49,682
624,944	634,538	188,985	813,929	764,247
\$ 657,586	\$ 624,944	\$ 250,007	\$ 907,593	\$ 813,929

VILLAGE OF KALKASKA
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUES
FOR THE YEAR ENDED FEBRUARY 29, 2004

	General Fund		Variance
	Amended Budget	Actual	Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 583,238	\$ 573,082	\$ (10,156)
Licenses and permits	100		(100)
Federal grants	210,200	200,761	(9,439)
State grants	5,900	5,275	(625)
Contributions from local units	9,800	10,066	266
Charges for services	12,000	12,420	420
Fines	13,620	13,995	375
Interest, rents, royalties	11,880	14,678	2,798
Other			
TOTAL REVENUES	<u>846,738</u>	<u>830,277</u>	<u>(16,461)</u>
EXPENDITURES:			
Current:			
Legislative	49,738	40,838	8,890
General government	156,599	132,707	23,892
Public safety	426,194	377,847	48,347
Public works	99,747	94,366	5,381
Recreation	16,769	12,441	4,328
Other	90,201	74,242	15,959
Debt service:			
Principal	5,500	5,108	392
Interest	2,000	1,755	245
TOTAL EXPENDITURES	<u>846,738</u>	<u>739,304</u>	<u>107,434</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		90,973	90,973
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)		(31,000)	(31,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$</u>	<u>59,973</u>	<u>\$ 59,973</u>
FUND BALANCE, beginning		139,231	
FUND BALANCE, ending		<u>\$ 199,204</u>	

The accompanying notes are an integral part of these statements.

Special Revenue Funds		
Amended Budget	Actual	Variance Favorable (Unfavorable)
\$	\$	\$
192,400	198,008	5,608
9,150	4,233	(4,917)
<u>6,200</u>	<u>120</u>	<u>(6,080)</u>
<u>207,750</u>	<u>202,361</u>	<u>(5,389)</u>
3,000	2,739	261
256,100	224,063	32,037
<u>259,100</u>	<u>226,802</u>	<u>32,298</u>
(51,350)	(24,441)	26,909
<u>50,000</u>		<u>(50,000)</u>
<u>\$ (1,350)</u>	(24,441)	<u>\$ (23,091)</u>
	<u>464,933</u>	
	<u>\$ 440,492</u>	

**VILLAGE OF KALKASKA
COMBINED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004**

	Proprietary Fund Types		Totals (Memorandum Only)	
	Enterprise	Internal Service	2004	2003
OPERATING REVENUES:				
Charges for services	\$ 1,011,335	\$ 97,785	\$ 1,109,120	\$ 1,180,863
Interest	25,798	344	26,142	29,230
TOTAL OPERATING REVENUES	1,037,133	98,129	1,135,262	1,210,093
OPERATING EXPENSES				
Personal services	250,237	38,356	288,593	238,442
Contractual services	168,293	10,944	179,237	51,458
Supplies	7,358	9,718	17,076	24,362
Materials	18,794		18,794	28,767
Heat, light, and maintenance	25,609		25,609	26,456
Repairs and maintenance	7,854	10,119	17,973	20,735
Equipment rental	17,923		17,923	17,385
Depreciation	109,544	30,989	140,533	140,345
TOTAL OPERATING EXPENSES	605,612	100,126	705,738	547,950
OPERATING INCOME (LOSS)	431,521	(1,997)	429,524	662,143
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(261,744)		(261,744)	(91,219)
Grant revenue	11,125		11,125	4,298
Other revenue	26,694		26,694	7,027
TOTAL NON-OPERATING INCOME (EXPENSES)	(223,925)		(223,925)	(79,894)
NET INCOME (LOSS)	207,596	(1,997)	205,599	582,249
Add – depreciation on assets purchased with contributed Capital	4,111		4,111	4,111
RETAINED EARNINGS, beginning	1,939,573	254,258	2,193,831	1,607,471
RETAINED EARNINGS, ending	\$ 2,151,280	\$ 252,261	\$ 2,403,541	\$ 2,193,831

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004**

			<u>Totals (Memorandum Only)</u>	
	<u>Enterprise</u>	<u>Internal Service</u>	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities:				
Other revenues and grants	\$ 37,819	\$	\$ 37,819	\$ 11,325
Cash received from customers	1,144,209	97,785	1,241,994	1,091,926
Cash paid to suppliers and employees	<u>(567,217)</u>	<u>(72,479)</u>	<u>(639,696)</u>	<u>(393,065)</u>
Net Cash Provided By Operating Activities	<u>614,811</u>	<u>25,306</u>	<u>640,117</u>	<u>710,186</u>
Cash Flows From Capital And Related Financing Activities:				
Principal paid on long-term debt	(95,000)		(95,000)	(123,396)
Principal received on long-term debt	2,185,692		2,185,692	2,689,363
Capital Contributed by Grants	44,164		44,164	263,409
Interest paid on long-term debt	(261,744)		(261,744)	(91,219)
Acquisition of plant and bond covenant	(2,169,165)		(2,169,165)	(3,246,743)
Increase in restricted cash – bond covenant	<u>(1,645)</u>		<u>(1,645)</u>	<u>(8,587)</u>
Net Cash (Used In) Capital And Related Financing Activities	<u>(297,698)</u>		<u>(297,698)</u>	<u>(517,173)</u>
Cash Flows From Investing Activities:				
Interest on investments	<u>25,798</u>	<u>344</u>	<u>26,142</u>	<u>29,230</u>
Net Cash Provided By Investing Activities	<u>25,798</u>	<u>344</u>	<u>26,142</u>	<u>29,230</u>
Net Increase (Decrease) in Cash & Cash Equivalents	342,911	25,650	368,561	222,243
Cash & Cash Equivalents, beginning	<u>878,561</u>	<u>112,995</u>	<u>991,556</u>	<u>769,313</u>
Cash & Cash Equivalents, ending	<u>\$ 1,221,472</u>	<u>\$ 138,645</u>	<u>\$ 1,360,117</u>	<u>\$ 991,556</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
COMBINED STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004
(Continued)**

			Totals (Memorandum Only)	
	Enterprise	Internal Service	2004	2003
Reconciliation of Net Operating Income to Net Cash				
Provided By Operating Activities:				
Net Operating Income (Loss)	\$ 431,521	\$ (1,997)	\$ 429,524	\$ 662,143
Adjustments to Reconcile Net Operating Income to Net				
Cash Provided by Operating Activities:				
Depreciation	109,544	30,989	140,533	140,345
Other revenue and grants	37,819		37,819	11,325
Decrease (increase) in:				
Receivables	132,874		132,874	(88,937)
Inventories	(411)		(411)	438
Prepaid expenses	(806)	(431)	(1,237)	(5,364)
Increase (decrease) in:				
Accounts payable	(69,932)	(2,911)	(72,843)	19,466
Interest Income classified as an investing activity	(25,798)	(344)	(26,142)	(29,230)
Net Cash Provided By Operating Activities	<u>\$ 614,811</u>	<u>\$ 25,306</u>	<u>\$ 640,117</u>	<u>\$ 710,186</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF KALKASKA NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The Village of Kalkaska (Village) complies with U.S. Generally Accepted Accounting Principles (GAAP). The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the fiscal year ended February 29, 2004.

B. Reporting Entity

The Village of Kalkaska was organized in 1887 and covers an area of approximately two square miles. The Village operates under an elected Council (7 members) and provides services to its more than 2,226 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, no required organizations have been omitted from these financial statements.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Funds and Account Groups

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund balance and revenues and expenditures or expenses, as appropriate.

Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund type categories and ten funds as follows:

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include the Major Street, Local Street, Drug Enforcement, Justice Training and Downtown Development Authority Funds (a component unit).

Debt Service Fund

This fund is used to record the payment of interest and principal on long term general obligation debt other than that payable from special assessments and debt issued for and serviced primarily by an Enterprise Fund. This fund consists of the Downtown Development Authority (DDA) fund.

Capital Projects Fund

This fund is used to fund various public improvement items for the Village.

Proprietary Fund Types

Internal Service Fund

The Internal Service Fund is established for the financing of goods and services provided by one department to other departments of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Funds and Account Groups - Continued

Proprietary Fund Types- Continued

Enterprise Funds

The Enterprise Funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The Village's Sewer Fund and Water Fund are Enterprise Funds.

Fiduciary Fund Types

Trust and Agency Funds

Trust and agency funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, other governments and/or funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Village's Payroll and Postretirement Benefit Funds are Fiduciary Funds.

Account Groups

General Fixed Assets Account Group

The General Fixed Assets Account Group presents the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets).

General Long-Term Debt Account Group

The General Long-Term Debt Account Group is used to record the unmatured principal of long-term general obligations of the Village which are not accounted for within a specific fund - Enterprise Funds, Internal Service Funds, and Special Assessment Funds. General obligation debt of the local unit is recorded here, including debt of Enterprise, Intragovernmental, and Special Assessment Funds which, though payable from such funds, constitutes a general obligation of the Village (does not include revenue bonds). The 1996 Downtown Development Bonds Payable is recorded in this Account Group.

D. Total Columns (memorandum only)

Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Taxpayer-assessed income, gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seem certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

F. Budgets

Annual operating budgets are adopted by the Village Council for the General, Special Revenue and Debt Service Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the Village Manager submits to the Village Council a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Offices to obtain taxpayer comments.
- c. Prior to February 28, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. The President or their designee is authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any department must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Budgets - Continued

- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the amended budgetary expenditures of the Village Council.

G. Encumbrance System

The Village does not use an encumbrance system.

H. Assets and Liabilities

1. Cash and investments

Michigan Compiled Laws, Section 129.91, authorizes the Village of Kalkaska to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated two banks for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

2. Accounts Receivable

It is the Village's policy to place delinquent sewer and water bills on the tax rolls on an annual basis.

3. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H. Assets and Liabilities

4. Utility Plant In Service and Depreciation

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

5. Internal Service Fund Equipment and Depreciation

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computer over the estimated useful life of the assets using the straight-line method.

6. Fixed Assets, Depreciation, and Amortization

Property, plant, and equipment of all funds are stated at historical cost. Donated fixed assets are stated at their fair market value on the date donated. Governmental fund fixed assets are recorded in the General Fixed Asset Account Group and are not depreciated. Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method. Estimated useful lives, in years, for depreciable assets are as follows:

Lift Station	10
Water System	20 - 50
Sewer	25 - 50
Furniture, fixtures, & equipment	5 - 40
Buildings	45
Vehicles	10

Contributed capital is recorded at historical cost and amortized over 45 years using the straight-line method. For further information regarding fixed assets, see Note 3, A.3., describing property and equipment.

7. Capitalization of Interest on Fixed Assets

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. As of February 29, 2004, no interest has been capitalized.

I. Allowance for Doubtful Accounts

The Village does not use an allowance for doubtful accounts. Any uncollected amount is included in the residents tax billing.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Accumulated Unpaid Sick Pay Benefit Amounts

The Village maintains a policy providing sick pay benefits for its employees. Accrued sick pay is being reported in the Trust and Agency Fund. Annually, the operating funds of the Village will fund any change in this liability.

K. Fund Balance Reserve

The Fund Balance Reserve reflects an offset for inventories and prepaid expenses. Under the modified accrual basis of accounting when inventories and prepaid expenses are reported on the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though inventories and prepaid expenses are a component of net current assets, they do not represent an "available spendable resource." The fund balance reserves for the various restricted assets indicates that these restricted assets, reported on the financial statements, are designated by the Village Council for a specific use and, therefore, are not an "available spendable resource."

L. Retained Earnings Reserve

Retained earnings reserve for restricted assets represent funds or resources that have also been designated by the Village Council for a particular use.

M. Post Retirement Benefits

The Village has entered into an arrangement with its employees by which medical benefits will be provided to the employees after retirement. All of the full-time Village employees are eligible to participate and are participating in the plan. The Village is setting aside funds in a Trust and Agency Fund annually to provide monies for this future cost. As of February 29, 2004, there were five employees eligible under the plan. The estimated liability to the Village had not been calculated. Funds available in the Trust and Agency Fund are \$431,394 as of February 29, 2004.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statement, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS -
Continued**

During the year ended February 29, 2004, the Village incurred expenditures in the General, Local Street, and Justice Training Funds, which were in excess of the amounts appropriated as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Other:			
Parking Lots	\$ 14,725	\$ 15,733	\$ 1,008
Operating transfers out		31,000	31,000
Local Street Fund:			
Public Works, Winter Maintenance	26,745	28,267	1,522
Justice Training Fund			
Public Safety	1,500	1,600	100

NOTE 3: DEFICIT FUND BALANCE

The debt service fund has a deficit fund balance of \$6,044 as of February 29, 2004.

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS

A. Assets

1. Deposits and Investments

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the Village's cash deposits are as follows:

	Bank Balance
Insured (FDIC)	\$ 205,226
Uninsured and Uncollateralized	2,744,793
Total Deposits	<u>\$ 2,950,019</u>

Cash and deposits are recorded in the financial statements as follows:

	Book Balance
Cash	\$ 2,593,238
Cash - restricted	219,237
Checks written in excess of deposits	<u>(14,024)</u>
Total cash and deposits	<u>\$ 2,798,451</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

1. Deposits and Investments - Continued

Restrictions are placed upon the use of cash by either a management or legislative action or by covenants in loan agreements or bond ordinances. Restricted cash in the General Fund in the amount of \$44,358 represents legislative or management restrictions for future uses of those funds. Restricted cash in the Enterprise Fund in the amount of \$174,879 represents cash restricted to meet bond covenants and future asset purchases.

For purposes of the statement of cash flows, the Village considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

2. Property Taxes Receivable and Property Tax Calendar

	<u>Mills</u>	<u>Adjusted Levy</u>	<u>Collections</u>	<u>Delinquent Real</u>	<u>Unpaid Personal</u>
Village - General Streets	12.0	\$ 614,663	\$ 528,404	\$ 85,796	\$ 463
Downtown Development Authority	1.0	15,925	13,566	2,359	

Details of the property tax calendar are as follows:

Levy date:	December 31 st of prior year
Lien date:	July 1 st
Due date:	July 1 st
Collection date:	July 1 st through September 14 th

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 14th of each year are purchased by the County tax revolving fund and paid to the Village in October of each year.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

2. Property Taxes Receivable and Property Tax Calendar – Calendar

The Village's Taxable Value is presented in detail below:

	<u>Village Taxable Value</u>
Real Property	\$ 39,195,370
Personal Property	10,836,800
Downtown Development Authority	15,962,440

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

3. Property and Equipment

A summary of the changes in the general fixed assets of the primary government is as follows:

	<u>Balance 02/28/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 02/29/04</u>
Land and land improvements	\$ 41,421	\$	\$	\$ 41,421
Buildings	135,906	17,545		153,451
Improvements other than buildings	912,378			912,378
Equipment	412,558	10,221		422,779
Total	<u>\$ 1,502,263</u>	<u>\$ 27,766</u>	<u>\$</u>	<u>\$ 1,952,808</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Property and Equipment - Continued

A summary of Proprietary Fund Type plant and equipment at February 29, 2004 is as follows:

	Enterprise	Internal Service
Land	\$ 87,934	\$
Building	62,661	
Construction work in progress	6,110,269	
Sewer collection system	2,161,322	
Water distribution system	2,459,001	
Equipment	201,624	584,430
	11,082,811	584,430
Less accumulated depreciation	2,536,048	477,441
NET	<u>\$ 8,546,763</u>	<u>\$ 106,989</u>

Depreciation expense for the Enterprise and Internal Service Funds for the year end February 29, 2004 were \$140,533 and \$140,345, respectively.

B. Liabilities

1. Bonds Payable

Bonds payable at February 29, 2004 are accounted for through the Enterprise Fund and General Long Term Debt Account Group. Bond information is as follows:

Downtown Development General Obligation Bonds Payable	
Series 1996 bearing interest from 5.10% to 7.00% and maturing on September 1, 2011	\$ 160,000
Water Supply and Sewage Disposal System Revenue Bonds - 1996	
Issue bearing interest at 5% and maturing on January 1 st of each Year until 2015	555,000
Water supply and Sewage Disposal System Revenue Bonds - 1996	
Issue bearing interest from 3.25% to 7.20% and maturing on January 1 st of each year until 2016	655,000
Sewage Disposal System Revenue Bonds Series 2002. Interest at 4.5% and maturing in 2042	4,432,000
	5,802,000
Less Current Maturities	112,000
Total Long-Term Portion of General Obligation and Revenue Bonds Payable	<u>\$ 5,690,000</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities

1. Bonds Payable - continued

The annual requirements to amortize long-term obligations outstanding as of February 29, 2004 including interest of \$6,257,004 are as follows:

Year ending February 28,	Principal	Interest	Total
2005	\$ 112,000	\$ 302,984	\$ 414,984
2006	124,000	296,064	420,064
2007	131,000	288,728	419,728
2008	143,000	281,232	424,232
2009	145,000	273,572	418,572
2010-2014	825,000	1,246,932	2,071,932
2015-2019	714,000	1,055,132	1,769,132
2020-2024	725,000	902,252	1,627,252
2025-2029	850,000	727,878	1,577,878
2030-2034	975,000	525,378	1,500,378
2035-2039	1,070,000	296,326	1,366,326
2040-2042	670,000	60,526	730,526
	6,484,000	6,257,004	12,741,004
Less revenue bonds not received as of February 29, 2004	682,000		682,000
	<u>\$ 5,802,000</u>	<u>\$ 6,257,004</u>	<u>\$ 12,059,004</u>

For the 1996 Issue, Bond Ordinance No. A-26 requires a quarterly payment to be deposited in a special bond redemption fund until the sum of \$80,000 has been attained and additional quarterly deposits in a bond and interest redemption fund account to cover current principal and interest maturities. The Village currently has \$76,771 in this account.

For the 1996 Issue, Bond Ordinance No. 432 and all provisions of Ordinance No. A-26, except that in the event the Outstanding Bonds are no longer outstanding the provisions requiring the consent of Farmers Home Administration no longer apply. Bond ordinance No. A-26 requires the Bond Reserve Account be further increased by the quarterly deposit of funds beginning July 1, 1996 and ending April 1, 2004 until another sum of \$80,000 has been attained. The Village currently has \$98,108 in this account.

Total interest charged to expense for the year was \$270,941. There was no interest capitalized during the year.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities – Continued

1. Bonds Payable - continued

Changes in bonds payable were as follows:

	Balance 2/28/03	Additions	Payments	Balance 2/29/04
1996 Downtown Development Bonds (Limited Tax General Obligation Bonds)	\$ 175,000	\$	\$ 15,000	\$ 160,000
1996 Water Supply and Sewage Disposal Revenue Bonds	585,000		30,000	555,000
1996 Water Supply and Sewage Disposal Revenue Bonds	700,000		45,000	655,000
2003 Sewage Disposal System Revenue Bonds	<u>2,472,000</u>	<u>1,980,000</u>	<u>20,000</u>	<u>4,432,000</u>
	<u>\$ 3,932,000</u>	<u>\$ 1,980,000</u>	<u>\$ 110,000</u>	<u>\$ 5,802,000</u>

2. Contingencies and Commitments - Bonds Payable

The Village has pledged its full faith and credit for payment of principal and interest on General Obligation Bond Issues recorded as a liability in General Long-Term Debt Group Account.

3. Notes Payable

Note payable – Michigan Department of Transportation, annual Payments of \$6,951, including interest at 4.41%. Matures July 2009	\$ 35,980
Note payable – Michigan Economic Development Corporation, The Village can earn credits of \$3,323 toward the repayment of the loan for each new job created within the Kalkaska Industrial Park through February 28, 2005. Credits may not exceed 50% of the loan balance plus accrued interest. Interest accrues at 5%. Principal and interest payments commence on May 1, 2005. As of February 29, 2004, no credits have been earned.	206,350
Note payable – Kalkaska County Industrial Development Corporation, repayment based on sale of lots in the Kalkaska Industrial Park. Upon the sale of each lot 30% of the net proceeds shall be paid to the mortgagee until 70% of the purchase price has been paid, then 100% of the net sale price shall be paid to the mortgagee until paid in full. There will be no interest charged on any part of the unpaid balance	<u>80,000</u>
	<u>\$ 322,330</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

3. Notes Payable - continued

The Note payable – MEDC does not amortize until May 1, 2005. Note payable (Michigan Department of Treasury) matures as follows:

2005	\$	5,338
2006		5,578
2007		5,829
2008		6,091
2009		6,365
2010		<u>6,779</u>
	\$	<u>35,980</u>

4. Capital lease payable

The Village has one capital lease payable outstanding as of February 29, 2004. The asset is recorded in the balance sheet under construction in progress.

Assets under capital lease payable	\$	124,430
Accumulated amortization as of 2/29/04		<u> </u>
Net assets under capital lease	\$	<u>124,430</u>

The liability for the capital lease is recorded in the Sewer fund.

Capital lease payable	\$	<u>116,705</u>
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Future minimum lease payments are as follows:

2005	\$	29,120
2006		29,120
2007		29,120
2008		29,120
2009		19,413

5. Risk management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

C. Interfund Transactions

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund transactions are not eliminated for financial presentation purposes.

Interfund receivables or payables as of February 29, 2004 were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 15,792	\$ 14,540
Special Revenue Fund	17,240	2,061
Debt Service Fund	2,192	
Enterprise Fund		2,700
Trust & Agency Fund		15,195
DDA		728
	<u>\$ 35,224</u>	<u>\$ 35,224</u>

Interfund transfers consisted of the following transactions:

General Fund - Transfers Out:

To: Trust & Agency – Postretirement benefit fund	\$ 31,000
From: General Fund	<u>(31,000)</u>
Total	<u>\$</u>

Operating transfers out exceed operating transfers in by \$31,000 due to the amount transferred to the Post Retirement Trust and Agency Fund which were shown as amounts provided by other funds rather than shown as operating transfers in.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: SEGMENT INFORMATION FOR THE ENTERPRISE FUNDS

The Village maintains two Enterprise Fund which provides water and sewer services. Segment information for the year ended February 29, 2004 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues (including interest)	\$ 340,413	\$ 696,720
Depreciation	56,999	52,545
Operating income	90,604	340,917
Net income	77,247	130,349
Property, plant, and equipment		
Additions	58,866	2,110,299
Net working capital	318,485	804,764
Total assets	1,963,211	8,124,013
Bonds outstanding	493,100	5,148,900
Total Equity:		
Contributed capital	334,315	1,139,362
Retained earnings	1,052,512	1,098,768

NOTE 6: ACCUMULATED UNPAID SICK PAY BENEFIT AMOUNTS

The Village policy allows each employee to accumulate the equivalent of a maximum sick time of 600 hours. At current rates, the Village, as of February 29, 2004, had accrued \$64,592 of sick and vacation pay which is recorded in the Village's Payroll Fund.

NOTE 7: EMPLOYEES RETIREMENT SYSTEM

A. Plan Description

The Village has an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts 1984, as amended, and the Constitution of the State of Michigan. The Village has no administrative responsibility for the plan. The Michigan Municipal Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing Municipal Employee Retirement Systems of Michigan, Lansing, Michigan 48917 or calling (517) 622-4401.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: EMPLOYEES RETIREMENT SYSTEM - Continued

B. Funding Policy

The plan provides for vesting of benefits after 10 years of credited service for all full-time employees. Effective March 1, 1999 all full-time police officers are able to obtain tenure after six years of full-time service, excluding the police chief. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

The retirement allowance is reduced ½% of 1% for each complete month retirement benefits are available. The plan provides that the employer/employee contribute amounts necessary to fund the actuarially determined benefits. The Village makes employer contributions in accordance with funding requirements determined by MERS' actuary, until such time as the contributions exceed 9% of covered payroll whereon the Village is directed to make withholdings from salaries and wages of eligible employees and forward these to MERS. The MERS' actuary uses the entry age normal actuarial cost method.

C. Annual Pension Costs

The Village's pension cost for the fiscal year ending February 29, 2004, 2003 and 2002 was \$57,774, \$82,587 and \$53,441 respectively. The required contribution was determined as part of December 31, 2002 actuarial valuation using the entry age normal actuarial cost method.

The significant actuarial assumptions to be used to compute the actuarial accrued liabilities are as follows: (1) the entry age normal actuarial cost method of valuation was used in determining age and service benefit liabilities and normal cost; (2) an 8% rate of return on investment of present and future assets was used based on estimated long-yield considering (a) the nature and mix of current and expected investments; and (b) the basis used to value those assets; (3) projected salary increases are based on 4.5% raises for merit, seniority, and inflation rate allowances. Benefits will not increase after retirement except that some participants will receive cost of living allowances. Unfunded accrued liabilities are amortized over 40 year period reduced by one year until it reaches 30.

D. Trend Information

	2003	2002	2001
Actuarial value of assets	\$ 2,113,286	\$ 2,051,366	\$ 1,910,795
Actuarial Accrued Liability (entry age)	2,705,466	2,412,168	2,319,961
Unfunded Actuarial Accrued Liability (UAAL)	592,180	360,802	409,166
Funded Ratio	78.1%	85.0%	82.4%
Covered Payroll	539,857	531,194	501,286
UAAL as a percent of covered payroll	1.09%	67.9%	81.6%

The data for the year ended February 29, 2004 was unavailable.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: INDIVIDUAL FUNDS PRESENTATION

The General, Debt Service, Capital Projects and Internal Service Fund (Equipment Fund) are the only Village funds of their fund type. Therefore, they are not presented in a combining statement in the supplemental data portion of this report.

NOTE 9: COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. However, comparative (i.e. presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE 10: POSTRETIREMENT PLAN OTHER THAN PENSIONS

The Village has a postretirement plan other than pensions for health insurance coverage. For Permanent employees - salaries, hourly and appointed the plan provides as follows:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive family health insurance coverage for a period of three years - paid in full by the Village. Specifically named employees are to receive lifetime hospitalization on both employee and spouse, paid in full by the Village in addition to the three (3) years family coverage and applies only to employees who have worked the required number of years and retire at age 55 or older. In case the eligible employee predeceases the spouse, the spouse will continue to receive this benefit for their lifetime.

For Police Department employees, the plan provides:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive existing health insurance paid in full by the Village for life.

The Village has established a separate fund to account for the financing of the plan. Monies were transferred in 2003 to the fund in the amount of \$31,000. Interest earned on these monies are being maintained in the Fund. The Fund had accumulated \$432,702 as of February 29, 2004. Any amounts not available in the Fund to meet costs will be the general obligation of the Village. The Village has not accrued any liability under the plan at February 29, 2004. At February 29, 2004, the Village had five retirees participating in the plan. There were no expenses incurred or reflected, by the Village, in the financial statements for the year ended February 29, 2004.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 11: EMPLOYEE BENEFIT PROGRAM

The Village adopted an employee benefit program effective October 1, 1990. The intention of the Village is that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an Employee elects to receive under the Plan be includable or excludable from the Employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

Each eligible employee may elect to have the amount of their employer contributions applied to any one or more of a health insurance and/or cash benefit.

NOTE 12: COMMITMENTS AND CONTINGENCIES

The Village has been awarded a revenue bond of \$5,154,000 for the replacement of the wastewater treatment plant. The Village committed \$470,000 to this project. The Village is in the construction phase on this project. The Village has expended approximately \$5,300,000 for this project as of February 29, 2004.

SUPPLEMENTARY DATA SECTION

COMBINING AND INDIVIDUAL FUND STATEMENTS

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 583,238	\$ 573,082	\$ (10,156)
Licenses and permits	100		(100)
Federal grants			
State grants	210,200	200,761	(9,439)
Contributions from local units	5,900	5,275	(625)
Charges for services	9,800	10,066	266
Fines	12,000	12,420	420
Interest, rents, royalties	13,620	13,995	375
Other	11,880	14,678	2,798
	<u>846,738</u>	<u>830,277</u>	<u>(16,461)</u>
TOTAL REVENUES			
EXPENDITURES:			
Legislative:			
Village Council	49,728	40,838	8,890
General government:			
Administrative	83,451	73,013	10,438
Municipal building	69,288	58,281	11,007
Other buildings & ground activities	3,860	1,413	2,447
Public safety:			
Police department	425,694	377,847	47,847
Fire	500		500
Public works	99,747	94,366	5,381
Recreation:			
Recreation	300		300
Parks	16,469	12,441	4,028
Other:			
Insurance and bonds	40,452	39,899	553
Parking lots	14,725	15,733	(1,008)
Airport	35,024	18,610	16,414
Debt service:			
Principal	5,500	5,108	392
Interest	2,000	1,755	245
	<u>846,738</u>	<u>739,304</u>	<u>107,434</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		<u>90,973</u>	<u>90,973</u>

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004
(CONTINUED)**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (from previous page)	\$	\$ 90,973	\$ 90,973
OTHER FINANCING SOURCES (USES):			
Operating transfers in (out)	<u> </u>	<u>(31,000)</u>	<u>(31,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	<u>\$</u>	59,973	<u>\$ 59,973</u>
FUND BALANCE, beginning		<u>139,231</u>	
FUND BALANCE, ending		<u>\$ 199,204</u>	

VILLAGE OF KALKASKA
COMBINING BALANCE SHEETS
ALL SPECIAL REVENUE FUNDS
FEBRUARY 29, 2004

	Major Street	Local Street	Drug Enforcement	Justice Training	Totals	
					2004	2003
ASSETS						
Cash	\$ 259,192	\$ 124,004	\$ 3,736	\$ 3,549	\$ 390,481	\$ 415,830
Due from:						
Other gov't units		372			372	397
State	25,242	14,106			39,348	36,756
Other funds		17,240			17,240	17,240
Prepaid expense	232	232			464	330
TOTAL ASSETS	\$ 284,666	\$ 155,954	\$ 3,736	\$ 3,549	\$ 447,905	\$ 470,553
LIABILITIES & FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 383	\$ 66	\$	\$	\$ 449	\$ 245
Accrued liabilities	1,885	3,018			4,903	3,314
Due to other funds		1,937		124	2,061	2,061
TOTAL LIABILITIES	2,268	5,021		124	7,413	5,620
FUND BALANCE						
Reserve for prepaid expenses	232	232			464	330
Unreserved:						
Undesignated	282,166	150,701	3,736	3,425	440,028	464,603
TOTAL FUND BALANCE	282,398	150,933	3,736	3,425	440,492	464,933
TOTAL LIABILITIES & FUND BALANCE	\$ 284,666	\$ 155,954	\$ 3,736	\$ 3,549	\$ 447,905	\$ 470,553

VILLAGE OF KALKASKA
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Major Street	Local Street	Drug Enforcement	Justice Training	Totals	
					2004	2003
REVENUES:						
Taxes	\$	\$	\$	\$	\$	\$
State grants	140,651	56,055		1,302	198,008	17,077
Interest	2,867	1,300	36	30	4,233	190,075
Other	120				120	9,340
						1,640
TOTAL REVENUES	143,638	57,355	36	1,332	202,361	218,132
EXPENDITURES:						
Public safety & police						
Public works:						
Highways, streets and bridges:			1,139	1,600	2,739	1,820
Routine maintenance	28,191	15,455			43,646	43,246
Street maintenance	45,273	35,235			80,508	17,883
Traffic service	3,246	535			3,781	4,567
Winter maintenance	39,626	28,267			67,893	66,622
Roadside parks	2,252				2,252	2,428
Administrative	13,512	12,471			25,983	24,424
TOTAL EXPENDITURES	132,100	91,963	1,139	1,600	226,802	160,990
EXCESS OF REVENUES OVER (UNDER)						
EXPENDITURES	11,538	(34,608)	(1,103)	(268)	(24,441)	57,142
FUND BALANCE, beginning	270,860	185,541	4,839	3,693	464,933	407,791
FUND BALANCE, ending	\$ 282,398	\$ 150,933	\$ 3,736	\$ 3,425	\$ 440,492	\$ 464,933

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
State grants	\$ 150,900	\$ 140,651	\$ (10,249)
Interest	5,000	2,867	(2,133)
Other	200	120	(80)
TOTAL REVENUES	<u>156,100</u>	<u>143,638</u>	<u>(12,462)</u>
EXPENDITURES:			
Public works:			
Highways, streets and bridges:			
Routine maintenance	33,308	28,191	5,117
Street maintenance	55,250	45,273	9,977
Traffic service	3,427	3,246	181
Winter maintenance	44,773	39,626	5,147
Roadside parks	3,422	2,252	1,170
Administrative	15,920	13,512	2,408
TOTAL EXPENDITURES	<u>156,100</u>	<u>132,100</u>	<u>24,000</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$</u>	11,538	<u>\$ 11,538</u>
FUND BALANCE, beginning		<u>270,860</u>	
FUND BALANCE, ending		<u>\$ 282,398</u>	

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
State grants	\$ 40,000	\$ 56,055	\$ 16,055
Interest	4,000	1,300	(2,700)
Other	6,000		(6,000)
	<u>50,000</u>	<u>57,355</u>	<u>7,355</u>
TOTAL REVENUES			
EXPENDITURES:			
Public works:			
Highways, streets and bridges:			
Routine maintenance	19,016	15,455	3,561
Street maintenance	38,450	35,235	3,215
Traffic service	1,770	535	1,235
Winter maintenance	26,745	28,267	(1,522)
Administrative	14,019	12,471	1,548
	<u>100,000</u>	<u>91,963</u>	<u>8,037</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(50,000)</u>	<u>(34,608)</u>	<u>15,392</u>
OTHER FINANCING SOURCES:			
Operating transfers in	<u>50,000</u>		<u>(50,000)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$</u>	(34,608)	<u>\$ (34,608)</u>
FUND BALANCE, beginning		<u>185,541</u>	
FUND BALANCE, ending		<u>\$ 150,933</u>	

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES; EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DRUG ENFORCEMENT FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest	\$ 150	\$ 36	\$ (114)
Other			
TOTAL REVENUES	<u>150</u>	<u>36</u>	<u>(114)</u>
EXPENDITURES:			
Public safety	<u>1,500</u>	<u>1,139</u>	<u>361</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,350)</u>	(1,103)	<u>\$ 247</u>
FUND BALANCE, beginning		<u>4,839</u>	
FUND BALANCE, ending		<u>\$ 3,736</u>	

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
JUSTICE TRAINING FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
State grant	\$ 1,500	\$ 1,302	\$ (198)
Interest		30	30
TOTAL REVENUES	<u>1,500</u>	<u>1,332</u>	<u>(168)</u>
EXPENDITURES:			
Public safety – police	<u>1,500</u>	<u>1,600</u>	<u>(100)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$</u>	(268)	<u>\$ (268)</u>
FUND BALANCE, beginning		<u>3,693</u>	
FUND BALANCE, ending		<u>\$ 3,425</u>	

VILLAGE OF KALKASKA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY - A COMPONENT UNIT
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 55,744	\$ 84,513	\$ 28,769
Interest	1,700	1,821	121
TOTAL REVENUES	<u>57,444</u>	<u>86,334</u>	<u>28,890</u>
EXPENDITURES:			
Public works:			
Highways, streets, and bridges:			
Administration	<u>45,400</u>	<u>25,312</u>	<u>20,088</u>
TOTAL EXPENDITURES	<u>45,400</u>	<u>25,312</u>	<u>20,088</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 12,044</u>	61,022	<u>\$ 48,978</u>
FUND BALANCE, beginning		<u>188,985</u>	
FUND BALANCE, ending		<u>\$ 250,007</u>	

VILLAGE OF KALKASKA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004

Combined

	Balance February 28, 2003	Additions	Deductions	Balance February 29, 2004
ASSETS				
Cash	\$ 494,501	\$ 790,723	\$ 810,001	\$ 475,223
Accounts receivable		41,257		41,257
TOTAL ASSETS	<u>\$ 494,501</u>	<u>\$ 831,980</u>	<u>\$ 810,001</u>	<u>\$ 516,480</u>
LIABILITIES				
Accounts payable	\$ 148	\$ 108	\$ 148	\$ 108
Accrued liabilities	38,559	781,049	749,825	69,783
Due to other funds	15,195			15,195
Amount provided by other funds and interest earned	440,599	50,823	60,028	431,394
TOTAL LIABILITIES	<u>\$ 494,501</u>	<u>\$ 831,980</u>	<u>\$ 810,001</u>	<u>\$ 516,480</u>

VILLAGE OF KALKASKA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUND
FOR THE YEAR ENDED FEBRUARY 29, 2004

Payroll Fund

	Balance February 28, 2003	Additions	Deductions	Balance February 29, 2004
ASSETS				
Cash	\$ 54,765	\$ 739,792	\$ 752,036	\$ 42,521
Amounts to be provided by other funds		41,257		41,257
	<u>\$ 54,765</u>	<u>\$ 781,049</u>	<u>\$ 752,036</u>	<u>\$ 83,778</u>
LIABILITIES				
Accounts payable	\$ 148	\$	\$ 148	\$
Accrued liabilities	38,559	781,049	749,825	69,783
Due to other funds	13,995			13,995
Amount provided by other funds and interest earned	2,063		2,063	
	<u>2,063</u>		<u>2,063</u>	
TOTAL LIABILITIES	<u>\$ 54,765</u>	<u>\$ 781,049</u>	<u>\$ 752,036</u>	<u>\$ 83,778</u>

Post Retirement Benefit Fund

	Balance February 28, 2003	Additions	Deductions	Balance February 29, 2004
ASSETS				
Cash	<u>\$ 439,736</u>	<u>\$ 50,931</u>	<u>\$ 57,965</u>	<u>\$ 432,702</u>
LIABILITIES				
Accounts payable	\$	\$ 108	\$	\$ 108
Due to other funds	1,200			1,200
Amount provided by other funds and interest earned	438,536	50,823	57,965	431,394
	<u>438,536</u>	<u>50,823</u>	<u>57,965</u>	<u>431,394</u>
TOTAL LIABILITIES	<u>\$ 439,736</u>	<u>\$ 50,931</u>	<u>\$ 57,965</u>	<u>\$ 432,702</u>

Addition for the Post Retirement Benefit Fund consist of transfers from the General Fund of \$31,000 and interest earned of \$19,931 totaling \$50,931.

**VILLAGE OF KALKASKA
COMBINING BALANCE SHEETS
WATER AND SEWER FUNDS
FEBRUARY 29, 2004**

				Totals	
		Water	Sewer	2004	2003
ASSETS					
Cash	\$	219,935	\$ 1,001,537	\$ 1,221,472	\$ 878,561
Accounts receivable		34,411	68,453	102,864	120,546
Due from state		8,865		8,865	124,057
Inventory of supplies		6,415	2,791	9,206	8,795
Prepaid expenses		2,030	21,145	23,175	22,369
Restricted Assets:					
Cash		61,330	113,549	174,879	173,234
Land			87,934	87,934	87,934
Buildings			62,661	62,661	62,661
Construction work in progress		242,615	5,867,654	6,110,269	3,977,169
Improvements other than buildings		2,459,001	2,161,322	4,620,323	4,584,258
Machinery and equipment		30,900	170,724	201,624	201,624
Accumulated depreciation		(1,102,291)	(1,433,757)	(2,536,048)	(2,426,503)
TOTAL ASSETS	\$	1,963,211	\$ 8,124,013	\$ 10,087,224	\$ 7,814,705
LIABILITIES & FUND EQUITY					
LIABILITIES:					
Accounts payable	\$	4,306	\$ 360,584	\$ 364,890	\$ 469,199
Accrued liabilities		7,495	42,127	49,622	15,245
Due to other funds		2,700		2,700	2,700
Deferred grant revenue					93,144
Notes payable		68,783	217,567	286,350	104,219
Capital lease payable			116,705	116,705	
Bonds payable – short term		30,300	66,700	97,000	95,000
Revenue bonds payable		462,800	5,082,200	5,545,000	3,662,000
TOTAL LIABILITIES		576,384	5,885,883	6,462,267	4,441,507
FUND EQUITY:					
Contributed capital		334,315	1,139,362	1,473,677	1,433,625
Retained earnings					
Reserved for revenue bond retirement and interest		61,330	113,549	174,879	173,234
Unreserved		991,182	985,219	1,976,401	1,766,339
TOTAL FUND EQUITY		1,386,827	2,238,130	3,624,957	3,373,198
TOTAL LIABILITIES & FUND EQUITY	\$	1,963,211	\$ 8,124,013	\$ 10,087,224	\$ 7,814,705

VILLAGE OF KALKASKA
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
WATER AND SEWER FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Water	Sewer	Totals	
			2004	2003
OPERATING REVENUES:				
Charges for services	\$ 336,771	\$ 674,564	\$ 1,011,335	\$ 1,088,363
Interest	3,642	22,156	25,798	25,179
TOTAL OPERATING REVENUES	340,413	696,720	1,037,133	1,113,542
OPERATING EXPENSES:				
Personal services	119,670	130,567	250,237	202,130
Contractual services	14,570	153,723	168,293	42,983
Supplies	3,577	3,781	7,358	14,317
Materials	14,447	4,347	18,794	28,767
Heat, light and power	19,163	6,446	25,609	26,456
Repairs and maintenance	4,796	3,058	7,854	7,808
Equipment rental	16,587	1,336	17,923	17,385
Depreciation	56,999	52,545	109,544	108,412
TOTAL OPERATING EXPENSES	249,809	355,803	605,612	448,258
OPERATING INCOME	90,604	340,917	431,521	665,284
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(27,157)	(234,587)	(261,744)	(90,545)
Grant revenues	11,125		11,125	3,050
Other revenue	2,675	24,019	26,694	7,027
TOTAL NON-OPERATING INCOME (EXPENSES)	(13,357)	(210,568)	(223,925)	(80,468)
NET INCOME	77,247	130,349	207,596	584,816
Add – depreciation on assets purchased with contributed capital	4,111		4,111	4,111
RETAINED EARNINGS, beginning	971,154	968,419	1,939,573	1,350,646
RETAINED EARNINGS, ending	\$ 1,052,512	\$ 1,098,768	\$ 2,151,280	\$ 1,939,573

VILLAGE OF KALKASKA
COMPARATIVE STATEMENTS OF CASH FLOWS
WATER AND SEWER FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2004

	Water	Sewer	Totals	
			2004	2003
Cash Flows from Operating Activities:				
Other revenue and grants	\$ 13,800	\$ 24,019	\$ 37,819	\$ 10,077
Cash received from customers	393,687	750,522	1,144,209	999,426
Cash paid to suppliers & employees	(196,422)	(370,795)	(567,217)	(325,896)
Net Cash Provided by Operating Activities:	211,065	403,746	614,811	683,607
Cash Flows from Capital and Related Financing Activities:				
Principal paid on long-term debt	(30,300)	(64,700)	(95,000)	(90,000)
Principal received on long-term debt	3,653	2,182,039	2,185,692	2,689,363
Capital Contributed by Grants	18,764	25,400	44,164	263,409
Interest paid on long-term debt	(27,157)	(234,587)	(261,744)	(90,545)
Acquisition of plant and bond covenant	(58,866)	(2,110,299)	(2,169,165)	(3,246,743)
Increase in restricted cash – bond covenant	(1,132)	(513)	(1,645)	(8,587)
Net Cash Provided by (Used In) Capital and Related Financing Activities	(95,038)	(202,660)	(297,698)	(483,103)
Cash Flows from Investing Activities:				
Interest on Investments	3,642	22,156	25,798	25,179
Net Cash Provided by Investing Activities	3,642	22,156	25,798	25,179
Net Increase (Decrease) in Cash and Cash Equivalents	119,669	223,242	342,911	225,683
Cash & Cash Equivalents, beginning	100,266	778,295	878,561	652,878
Cash & Cash Equivalents, ending	\$ 219,935	\$ 1,001,537	\$ 1,221,472	\$ 878,561

VILLAGE OF KALKASKA
COMPARATIVE STATEMENTS OF CASH FLOW
WATER AND SEWER FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

	Water	Sewer	Totals	
			2004	2003
Reconciliation of Net Operating Income to Net Cash				
Provided by Operating Activities:				
Net operating income	\$ 90,604	\$ 340,917	\$ 431,521	\$ 665,284
Adjustments to Reconcile Net Operating Income to Net Cash				
Provided by Operating Activities:				
Depreciation	56,999	52,545	109,544	108,412
Other revenue and grants	13,800	24,019	37,819	10,077
Decrease (increase) in:				
Receivables	56,916	75,958	132,874	(88,937)
Inventories	(1,310)	899	(411)	438
Prepaid expenses	(101)	(705)	(806)	(3,282)
Increase (decrease) in:				
Accounts payable	(2,201)	(67,731)	(69,932)	16,794
Interest income classified as investing activity	(3,642)	(22,156)	(25,798)	(25,179)
Net Cash Provided by Operating Activities	<u>\$ 211,065</u>	<u>\$ 403,746</u>	<u>\$ 614,811</u>	<u>\$ 683,607</u>

VILLAGE OF KALKASKA
SCHEDULE OF REVENUE BONDS PAYABLE
1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004

Schedule A

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.25% to 7.20%	June 1, 1996	NBD	\$740,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>January 1,</u>	<u>Interest Due July 1,</u>	<u>Total</u>
2004			\$ 16,393	\$ 16,393
2005	\$ 30,000	\$ 16,393	15,568	61,961
2006	35,000	15,568	14,588	65,156
2007	35,000	14,588	13,590	63,178
2008	40,000	13,590	12,430	66,020
2009	40,000	12,430	11,250	63,680
2010	45,000	11,250	9,900	66,150
2011	45,000	9,900	8,550	63,450
2012	50,000	8,550	7,050	65,600
2013	55,000	7,050	5,400	67,450
2014	55,000	5,400	3,750	64,150
2015	60,000	3,750	1,950	65,700
2016	65,000	1,950		66,950
	<u>\$ 555,000</u>	<u>\$ 120,419</u>	<u>\$ 120,419</u>	<u>\$ 795,838</u>

**VILLAGE OF KALKASKA
SCHEDULE OF WATER AND SEWAGE DISPOSAL
SYSTEM REVENUE BONDS 1975 ISSUE
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004**

Schedule B

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS 1975

<u>Bond Numbers</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>February 29, 2004</u>
	01/01/96	\$1,350,000			
140-148			5%	01/01/05	\$ 45,000
149-158			5%	01/01/06	50,000
159-168			5%	01/01/07	50,000
169-179			5%	01/01/08	55,000
180-190			5%	01/01/09	55,000
191-202			5%	01/01/10	60,000
203-214			5%	01/01/11	60,000
215-227			5%	01/01/12	65,000
229-241			5%	01/01/13	70,000
242-255			5%	01/01/14	70,000
256-270			5%	01/01/15	<u>75,000</u>
Total					<u><u>\$ 655,000</u></u>

VILLAGE OF KALKASKA
SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE
1996 DOWNTOWN DEVELOPMENT BONDS
(LIMITED TAX GENERAL OBLIGATION)
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004

Schedule C

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.10% to 7.00%	May 1, 1996	NBD	\$240,000

<u>Maturity September 1,</u>	<u>Principal Amount</u>	<u>March 1,</u>	<u>Interest Due September 1,</u>	<u>Total</u>
2004	\$ 15,000	\$	\$ 4,409	19,409
2005	15,000	4,019	4,019	23,038
2006	20,000	3,621	3,621	27,242
2007	20,000	3,081	3,081	26,162
2008	20,000	2,541	2,541	25,082
2009	20,000	1,991	1,991	23,982
2010	25,000	1,431	1,431	27,862
2011	25,000	719	719	26,438
	<u>\$ 160,000</u>	<u>\$ 17,403</u>	<u>\$ 21,812</u>	<u>\$ 199,215</u>

VILLAGE OF KALKASKA
SCHEDULE OF SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2004

Schedule D

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
4.5%	July 1, 2003	RDA	\$ 5,154,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>		<u>Total</u>
		<u>July 1,</u>	<u>January 1,</u>	
2005	\$ 22,000	\$ 115,065	\$ 115,065	\$ 252,130
2006	24,000	114,570	114,570	253,140
2007	26,000	114,030	114,030	254,060
2008	28,000	113,445	113,445	254,890
2009	30,000	112,815	112,815	225,630
2010-2014	180,000	553,050	553,050	1,286,100
2015-2019	514,000	521,866	521,866	1,557,732
2020-2024	725,000	451,126	451,126	1,627,252
2025-2029	850,000	363,939	363,939	1,577,878
2030-2034	975,000	262,689	262,689	1,500,378
2035-2039	1,070,000	148,163	148,163	1,366,326
2040-2042	670,000	30,263	30,263	730,526
	<u>\$ 5,114,000</u>	<u>\$ 2,901,021</u>	<u>\$ 2,901,021</u>	<u>\$ 10,916,042</u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 13, 2004

To the Village Council
Village of Kalkaska
Kalkaska, Michigan

We have audited the general purpose financial statements of Village of Kalkaska as of and for the year ended February 29, 2004, and have issued our report thereon dated July 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Village of Kalkaska' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we reported to the management of the Village of Kalkaska in a separate letter dated July 13, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Kalkaska' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general

purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Village of Kalkaska in a separate letter dated July 13, 2004.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.


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HARRIS GROUP

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

July 13, 2004

To the Village Council
Village of Kalkaska
Kalkaska, Michigan

Compliance

We have audited the compliance of Village of Kalkaska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 29, 2004. Village of Kalkaska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Village of Kalkaska's management. Our responsibility is to express an opinion on Village of Kalkaska's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Kalkaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Kalkaska's compliance with those requirements.

In our opinion, Village of Kalkaska complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 29, 2004.

Internal Control Over Compliance

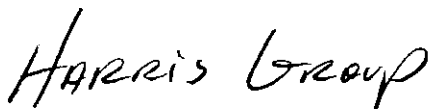
The management of Village of Kalkaska is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Village of Kalkaska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of Village of Kalkaska as of and for the year ended February 29, 2004, and have issued our report thereon dated July 13, 2004. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not required as part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.



Certified Public Accountants

**VILLAGE OF KALKASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2004**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>Federal Grants</u>			
U.S. Department of Commerce, Passed through the Economic Development Administration Grants for Public Works and Development Facilities	11.300	06-01-04402	\$ 37,506
Department of Housing and Urban Development, Passed through the Michigan Economic Development Corporation Community Development Block Grant	14.228	MSC 201019	6,656
<u>Federal Loans/Loan Guarantees</u>			
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760		1,980,000
Department of Housing and Urban Development, Passed through the Michigan Economic Development Corporation Community Development Block Grant/Loan	14.228	MSC 990057	<u>102,131</u>
Total Federal Grants and Loans/Loan Guarantees			<u>\$ 2,126,293</u>

VILLAGE OF KALKASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2004

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Village of Kalkaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Waste and Water Disposal Systems for Rural Communities CFDA#10.760 and Community Development Block Grant CFDA #14.228, were audited as a major programs, representing 98,2% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The Village of Kalkaska had the following loan balances outstanding at February 29, 2004. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 4,432,000
Community Development Block Grant/Loan	14.228	206,350

**VILLAGE OF KALKASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED FEBRUARY 28, 2004**

Section I – Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10.760	Waste and Water Disposal Systems for Rural Communities
14.228	Community Development Block Grant/Loan

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

None.

**VILLAGE OF KALKASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED FEBRUARY 29, 2004
(Continued)**

· **Section III – Federal Award Findings and Questioned Costs**

None.

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**VILLAGE OF KALKASKA
SCHEDULE OF PRIOR AUDIT FINDINGS**

None



July 13, 2004

To the Members of the Village Council
Village of Kalkaska
Kalkaska, Michigan

In planning and performing our audit of the financial statements of the Village of Kalkaska for the year ended February 29, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Kalkaska's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

GASB Statement #34 – *The New Reporting Model*

The Government Accounting Standards Board has issued Statement #34, *The New Reporting Model*. This statement changes the way governmental entities will report financial information. The accounting staff should be aware of the general concepts of this Statement, Which must be implemented for the fiscal year beginning March 1, 2004. The major item of concern for the Village will be the requirement to value the infrastructure under the Village's control. The Village should begin gathering this information before the standard is required to be implemented. Also, we will be able to consult with the Village to insure proper implementation.

Due to/due from accounts

The Village uses due to/due from accounts to manage interfund loans. These loans must be repaid on a timely basis. It was noted during the audit that the interfund accounts were not closed out during the year. The Village should develop a policy for the repayment of interfund loans.

Vacation policy

During our audit, it was not easy to determine the policy related to paying the vacation accrual for terminated or retired employees. The contract for employees was vague in relation to paying the amount of vacation accumulated but not credited. New contracts subsequent to year end have clarified this amount. The Village funds the accrued sick and vacation in the payroll agency fund. The change in contract wording has changed the calculation of the accrued vacation, and thus, the Village is now underfunded for vacation pay in the payroll agency fund. The Village needs to increase its contribution to the payroll agency fund to account for the increase in vacation pay liability.

Accounting software

As noted from prior audits, the accounting software continues to give the staff problems. We recommend evaluating different vendors of municipal accounting software to see if the Village would be better suited using a different program. Alternatively, more training on the current program may help staff recognize of the shortfalls of the software and learn techniques to work around them.

Purchase of Certificates of Deposit

Annually, the Village will purchase certificates of deposits to set aside funds for specific purposes. In doing so, the staff tends to think that purchasing a certificate of deposit is an expenditure and will "use the budget" of a specific line item. Certificates of deposits are assets, not expenditures. If the Village is under budget in certain areas and would like to carry forward that available budget balance to the next fiscal period, it may do so by amending the budget of the next fiscal period.

Post retirement health insurance

The Village provides health insurance to certain retirees. The Governmental Accounting Standards Board has just issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Under the provisions of the standard, employers would need to recognize the cost of those benefits provided to retirees in the period earned. This standard is to be implemented in three phases. The starting phase for the Village of Kalkaska would be for the year ended February 29, 2010.

Systems Documentation

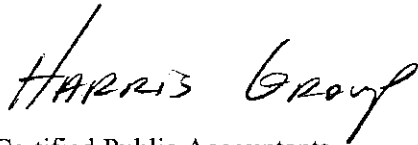
The accounting department needs to develop an accounting procedures manual of the accounting systems. This manual will aid in the training of new staff and will help to improve the efficiency at which work is completed. The major accounting systems are: Water and Sewer billing/cash receipts, payroll, accounts payable and month end closing procedures.

Deficit Fund Balance

The Village has a deficit fund balance in the DDA Debt Service Fund. The general fund is required to cover any deficits in this Debt Service Fund. Also, the Village will need to submit a deficit reduction plan with the Department of Treasury.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Village Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "HARRIS Gray". The signature is written in a cursive, flowing style.

Certified Public Accountants